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FISCAL IMPACT STATEMENT

LS 7134

BILL NUMBER: HB 1400

NOTE PREPARED: Jan 22, 2006

BILL AMENDED:

SUBJECT: Government Reorganization and Administration.

FIRST AUTHOR: Rep. Whetstone

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Transfer of Property Tax Assessment and Dog Tax Duties.* This bill transfers the property tax assessment duties and dog tax duties of elected township assessors and township trustee assessors to the county assessor. It eliminates the office of elected township assessor.

Adoption of Budgets, Rates, and Levies. It makes various changes in laws governing the adoption of budgets, tax rates, and tax levies.

Administration of Public Funds. The bill makes changes in laws governing the administration of public funds.

Local Option Taxes. The bill permits a county to impose any combination of local supplemental income taxes, sales taxes, food and beverage taxes, or innkeepers' taxes. It requires 80% of the tax revenue to be used for property tax replacement credits.

Child Welfare: It also limits the annual amount that may be levied for: (1) a family and children's fund; or (2) a children's psychiatric residential treatment services fund. The bill, with certain exceptions, obligates the state to pay expenditures for child services and children's psychiatric residential treatment services that exceed a county's levy. It requires predispositional and modification reports in child in need of services proceedings in a juvenile court to be prepared by a caseworker. It establishes a probation services fund in each county and permits a property tax levy to fund services ordered by a juvenile court in proceedings concerning delinquent children.

Reorganization of Local Government. It also establishes a procedure for the reorganization of local

government and for cooperative agreements. The bill makes related changes and makes an appropriation.

Effective Date: July 1, 2007.

Explanation of State Expenditures: *Transfer of Property Tax Assessment and Dog Tax Duties:* The Department of Local Government Finance (DLGF) must determine a procedure and schedule for the transfer of each of the township assessor's office records and operations to the county assessor before July 1, 2007. The DLGF must also adjust the maximum permissible ad valorem tax levy of each county and township to reflect the transfer of duties from township assessors to county assessors. The adjusted levies must apply to property taxes first due and payable after December 31, 2006. The DLGF may adopt temporary rules to implement these provisions. The DLGF should be able to accomplish these tasks given its existing level of resources.

Transfer of Property Tax Assessment Duties: The DLGF provides training to county and township assessors. Assigning the duty of assessing property to the county assessor instead of the township assessing official will reduce administrative expenses associated with the provision of training to assessors. The DLGF will still have to provide training to county assessors. However, the potential number of trainees would be reduced from 1,100 to 92.

Background: Assessors are currently required to maintain either Level I or Level II certification. The DLGF certifies the assessors. Assessing officials must earn 30 hours of education within a 4-year period to be certified as a Level I assessor. Officials must complete 45 hours of education within a 4-year period to be certified as a Level II assessor. The DLGF offers training and certification at no cost to the assessor. Education may also be earned at training offered by approved entities. Participants in the training offered by the DLGF are responsible for travel and associated costs which may be paid by the sponsoring governmental unit.

The next reassessment will begin in 2009 and must be completed by March 1, 2011. This reassessment will be the basis for taxes payable in 2012.

As of January 2005, of the 1,008 townships in the state, 177 had elected assessors and 831 had trustee-assessors. With respect to certification levels, 11 county assessors had obtained a Level I and 71 had obtained a Level II certification. For elected township assessors, 16 had attained Level I and 107 had attained Level II. For township trustee-assessors, 68 had attained Level I and 63 had attained Level II.

State Conducted Assessment or Reassessment: The bill provides that counties may contract with the DLGF to conduct or contract for the reassessment or assessment of property in the county. If the DLGF contracts to have the work done, the DLGF must forward the bill to the county. The DLGF must also publish a notice of the contract in a newspaper of general circulation in the county. The DLGF must give notice to the taxpayer and the county assessor by mail of the amount of the assessment or reassessment. The notice is subject to appeal and must include a statement of the taxpayer's rights. The impact of this provision will depend on the number and nature of county reassessments or assessments that the DLGF conducts. Expenses would be paid from the county reassessment fund.

Forms: The DLGF is required to prescribe certain forms and information sheets necessary to the proposed system. The DLGF should be able to provide the necessary forms given its existing staff and resources.

Tax Statements: The county treasurer, the county auditor, and the county assessor must cooperate to generate information to be included in a mailing to each taxpayer of information pertaining to property taxes. After

December 2007, the statement and information must be in a uniform format prescribed by the DLGF. A county that incurs initial computer programming costs or printing costs must submit an itemized statement to the DLGF for reimbursement from the state. The Treasurer of State must pay a claim approved by the DLGF. Total claims may not exceed \$50,000.

Attorney General and the State Board of Accounts (SBA): The contract must be approved locally and by the DLGF and the Attorney General. The county must file a copy with the SBA. The SBA and the Attorney General should be able to cover any additional expenses that would be incurred by these provisions.

Child Welfare: The state would be responsible for about \$41.2 M in child welfare expenses in CY 2007 and \$61.5 M in CY 2008. However, state expenditures for PTRC and homestead credit would also be reduced by an estimated \$9.7 M in CY 2007 and \$14.5 M in CY 2008. By fiscal year, the state's net additional cost under this provision is estimated at \$17.4 M in FY 2007 (partial year) and \$51.3 M in FY 2008.

Family and Children's Fund:

State Child Welfare Fund: The bill establishes the State Child Welfare Fund (Fund). The Department of Child Services (DCS) is named as the responsible entity for administering the Fund.

The Fund consists of the following: money transferred from each of the county child welfare funds, including amounts paid to the state by a county for costs of services ordered by a juvenile court; fees or costs paid by a parent or guardian under a support or reimbursement order; contributions from individuals, corporations, foundations, or others; appropriations made by the General Assembly; funds received from the federal government and deposited in the Fund; and any other money required by the law to be deposited in the Fund.

The DCS is required to pay the following from the Fund: (1) expenses and obligations for payment of child services for children adjudicated to be children in need of services (CHINS) and other related services; (2) expenses and obligations incurred in the payment of children's psychiatric residential treatment services; (3) expenditures for services or a procurement contract; (4) any expense of the type that was payable before January 1, 2007, from a county family and children's fund and a county children's psychiatric residential treatment services fund; and (5) any other expense or obligation that is required to be paid from the Fund by law.

If an insufficient amount in the Fund is available to pay the expenditures payable from the Fund, the remainder of the expenditures payable from the Fund shall be paid from the state General Fund.

Money in the fund does not revert to the state General Fund at the end of a state fiscal year.

Departing from a Dispositional Plan: As proposed, if the juvenile court issues a dispositional plan that departs from the "appropriate dispositional plan," the juvenile court would be required to include written findings describing: reasons why the juvenile court departed from the "appropriate dispositional plan," and the additional expense for child services, if any, that the court's dispositional decree would incur as compared to the cost of the "appropriate dispositional plan." This provision of the bill would increase the workload for the courts. Actual increases would be dependent on the number of dispositional plans from which the court departs and the magnitude of each report completed.

The bill also requires the county to reimburse the State Family and Children's Fund from the County Family

and Children's Fund for the cost of child services, other than secure detention or probation services, that: (1) are ordered by the juvenile court in a dispositional order, modification, or other decree for any child or the child's parent, guardian, or custodian; and (2) are not designated as appropriate services in an appropriate dispositional plan. The type of services or the number of persons for which services would be ordered by a juvenile court which were not designated as appropriate are indeterminable.

Responsibility of Payment for Services: The DCS is responsible for paying for the cost of services ordered by the juvenile court for any CHINS, or juvenile offender adjudicated as a CHINS, or for the child's parent, guardian, or custodian, other than secure detention or probation services, if the services are appropriate services set forth in an "appropriate dispositional plan." The DCS is required to pay for the services from the state Family and Children's Fund or from other money appropriated to the DCS for the cost of child services.

The county is required to reimburse the state Family and Children's Fund from the county family and children's fund for the cost of services, other than secure detention or probation services, that are ordered by the juvenile court in a dispositional order, modification, or other decree for any child or the child's parent, guardian, or custodian, and are not designated as appropriate services in an "appropriate dispositional plan."

The bill makes counties responsible for paying the cost of probation services; any services ordered by the juvenile court for any child or the child's parent, guardian, or custodian, other than secure detention, for a juvenile delinquent offender; returning a child under the interstate compact on juveniles; and services ordered by the juvenile court for any child or the child's parent, guardian, or custodian that is not otherwise payable from another fund or under another law; from the county probation services fund

The county is required to pay for the costs of secure detention from the county General Fund.

Under current law, the county is responsible for paying for the cost of any services ordered by the juvenile court for a child or the child's parent, guardian, or custodian, other than secure detention, and for returning a child under the interstate compact for juveniles. Payment of those services are made from the county family and children's fund.

Parental Reimbursement through Child Support: The bill adds language which requires a parent or guardian to reimburse the DCS or the county for the cost of services provided to the child or the child's parent or guardian. Currently, the aforementioned persons are required to reimburse the county for services provided.

Under current law, if there is not an existing support order, the court is required to order a child's parent or guardian to pay child support to the county office. The order is based upon Child Support Guidelines adopted by the Indiana Supreme Court. However, the court is not required to make the order if the court finds that entry of an order would be unjust or inappropriate considering the best interests of the child and other necessary obligations of the family, or the county does not make foster care maintenance payments for the child. As proposed, child support payments would be made to the DCS or the county. In addition, the bill requires an existing support order be paid to either the DCS or the county office, depending on which entity is appropriate, when a child is placed in an out-of-home placement.

Responsibility of Provision of Services: The DCS is not responsible for providing or administering services (see *Procurement of Services*) for a county if the services are child services, ordered to a juvenile delinquent by a juvenile court, and the child has not been adjudicated as a CHINS. A county fiscal body may enter into a contract with the DCS to provide services for the child. Services would then be reimbursed to the DCS from

the county's probation services fund.

Procurement of Services: The bill requires the DCS to establish a program to procure services for: providing child protection services; regulating and licensing child caring institutions, foster family homes, group homes, and child placing agencies; providing and administering child abuse and neglect prevention services; administering the state's Title IV-D plan; providing and administering child services and children's psychiatric residential treatment services; administering family preservation services; administering foster care services; and administering adoption services. Under current law, the DCS may establish a program to procure the aforementioned services. The bill removes current statutory language which makes a county responsible for reimbursing the DCS for services paid for by the DCS under a procurement agreement.

Consideration of Plan: As proposed, the county would no longer be responsible for considering an initial, revised, or updated plan, for a CHINS. In addition, the county would not be responsible for payment of services provided under the plan from the County Family and Children's Fund. The DCS would become the entity responsible for consideration of plans and payment of services. Payment would be made from the State's Family and Children's Fund.

Presdispositional Reports for CHINS: Under current law, a probation officer or caseworker is responsible for preparing various reports pertaining to a CHINS. These include predispositional, financial, progress, case review progress, permanency hearing, and modification reports.

As proposed, probation officers would no longer be responsible for the completion of reports. Caseworkers are currently responsible for preparing reports for CHINS; thus, no increase or decrease of workload is anticipated.

Family and Children Trust Clearance Fund: Under current law, the county office may receive and administer a gift, devise, or bequest of personal property, which are subsequently kept in the County Family and Children Trust Clearance Fund (County Fund). Money in the County Fund is used for the (1) care of children whose adoption is contemplated, and (2) improvement of adoption services provided by the county departments. The county office must receive the approval of the judge or the court of the county having probate jurisdiction before expending any money from the County Fund.

As proposed, the DCS would become the entity able to receive and administer a gift, devise, or bequest of personal property. The bill eliminates the County Fund and establishes the State Family and Children Trust Clearance Fund (State Fund). The DCS is responsible for administering the State Fund, money in the State Fund does not revert to the state General Fund at the end of the state fiscal year. Any gift, devise, or bequest of personal property, given to the DCS would be kept in the State Fund. In contrast to current law, the state would not need the approval of a judge to expend money; uses of the money remains the same.

Out-of-State Placements: Under current law, if a child is placed by a court order in an out-of-state institution or other facility and provided all educational programs and services by a public school corporation in the state where the child is placed, the county Office of Family and Children is responsible for paying the transfer tuition from the County Family and Children's Fund. As proposed, the DCS would become responsible for payment of the transfer tuition. Payment would be made from the State Family and Children's Fund.

Institutional Space: If a child is placed in an institution or facility in Indiana under court order, the entity currently charges the county office of the student's legal settlement for the use of the space that is used to provide educational services to the child. As proposed, the DCS would be responsible for payment.

Office of Management and Budget: The bill requires the Office of Management and Budget (OMB) to carry out a program to evaluate the performance of the DCS. The OMB is required to conduct regular reviews of the extent to which the best interests of the children being served by the DCS are being met. The OMB should be able to do so within its existing level of resources.

The funds and resources required above could be supplied through a variety of sources, including the following: (1) existing staff and resources not currently being used to capacity; (2) existing staff and resources currently being used in another program; (3) authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) funds that, otherwise, would be reverted; or (5) new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions.

Indiana Soldiers' and Sailors' Children's Home: Under current law, if a child is placed in the Indiana Soldiers' and Sailors' Children's Home and is adjudicated to be a delinquent child or a CHINS, the juvenile court may order the county office in the child's county of residence to reimburse the cost of services from the County Family and Children's Fund. The county office of residence may then require the parent or guardian of the child to reimburse the County Family and Children's Fund for services. As proposed, the DCS would become responsible for reimbursement of services from the State Family and Children's Fund and subsequently would be able to require a parent or guardian of a child to reimburse for services.

Reorganization of Local Government, DLGF: The bill could increase administrative costs for the DLGF which would be required to establish a formula for adjusting maximum permissible property tax levies, maximum permissible property tax rates, and budgets. The adjustments could not exceed 50% of the savings or expense reductions realized in the first full year of operation. Further, a political subdivision may petition for judicial review of a final determination of the DLGF. Also, the DLGF will verify that a duplication of tax levies does not exist within a provider political subdivision when approving a rate and levy fixed by a provider political subdivision.

Attorney General, Budget Agency, and Secretary of State - The bill could increase costs for the Attorney General and Budget Agency to review and approve cooperative agreements if the state is a party to the agreement. However, costs for the Attorney General may be minimal because if the Attorney General does not disapprove an agreement within 60 days of its submission, it is considered approved. The bill also requires that an executed copy of a cooperative agreement be filed with the Secretary of State.

Legislative Services Agency (LSA): LSA must prepare legislation for introduction in the 2008 regular session of the General Assembly to correct statutes affected by the bill. LSA will be able to accomplish this task given its existing level of resources.

Local Option Supplemental Taxes: Under the bill, any local option sales, innkeeper's, or food and beverage tax imposed would be remitted to the Department of State Revenue (DOR) in the same manner that the state Gross Retail Tax is remitted. A local option supplemental income tax would be collected in the manner that the state Income Tax is collected. Employers would be required to report to the DOR the amount of withholdings attributable to each county in which the employer is located. The DOR would likely revise their individual income tax forms to include the proposed income tax.

Local Option Supplemental Income Tax Distributions: The Budget Agency would calculate and the DOR would approve supplemental local income tax distributions under the procedures used for local option income

taxes. Certifications for each adopting county's supplemental certified distribution would be based on revenue received from the tax in the year previous to the certification and distributed to the county in the year following certification. The DOR would distribute an annual certified distribution to counties on a monthly basis.

The certification and distribution of these additional local option taxes would significantly increase the administrative responsibilities and expenses of both the OMB and DOR.

Auditor's Office: The Auditor's office would maintain a special account for each county adopting a local option supplemental income tax within the state General Fund. Money in the special accounts at the end of a state fiscal year would not revert to the General Fund.

State Treasurer: The Treasurer of State would send local sales, innkeeper's, and food and beverage tax revenues monthly to county fiscal officers. The Department would send certified distributions of local supplemental income taxes on a monthly basis to county fiscal officers.

Adoption of Budgets, Rates, and Levies: Under current law, the officers of each taxing unit must adopt a budget, tax rate, and levy at a public meeting. Within 10 days of the taxing unit's meeting, at least 10 taxpayers may file an objection to the budget, tax rate, or levy.

At least two days before the first meeting of the county board of tax adjustment (TAB), each civil taxing unit must file with the county auditor (1) a statement of the tax rate and levy and (2) copies of any adopted findings related to taxpayer objections.

Within 10 days after the publication of the TAB's notice of tax rates, at least 10 taxpayers or the owners of at least 10% of the AV in the unit may object to the TAB's action by initiating an appeal. The DLGF must hold a hearing on the objection. The DLGF must also hold a public hearing on each taxing unit's budget, tax rate, and levy after local adoption. The hearing on the objection may be held in conjunction with the hearing on the budget, tax rate, and levy.

Under this proposal, the DLGF would not be permitted to hold its public hearing on a civil taxing unit's budget, tax rate, and levy if taxpayers do not file an objection after the initial adoption. The DLGF would be required only to review the budget, tax rate, and levy to ensure compliance with statutory levy limits.

This provision could reduce DLGF costs for holding these hearings on site in the counties.

Explanation of State Revenues:

Explanation of Local Expenditures: *Transfer of Property Tax Assessment and Dog Tax Duties:* Overall, the bill would increase expenses incurred by counties that would be required to take over assessing and dog tax responsibilities from townships. Conversely, expenses for townships would decrease. The local impact would depend on current township expenses for assessing and dog tax duties relative to expenses that counties will incur in order to assess property in townships and to assume dog tax responsibilities. Township assessors must organize records relating to the assessment of tangible property or dog tax in a manner prescribed by the DLGF and transfer the records to the county assessor. Township assessors and county assessors must assist each other and coordinate their efforts to ensure an orderly transfer.

Transfer of Property Tax Assessment Duties: There are currently 1,008 townships in the state. Counties would

take over the assessing responsibilities for property in these townships. Additional expenses would depend on the number of assessors that a county might hire and the salaries paid. If counties added 100 assessors, one assessor for about every 10 townships, and paid salary and benefits of approximately \$30,000, the increase in expenses would be about \$3 M annually. There could be a corresponding reduction in township assessing expenses. It is assumed that the budgets would be adjusted accordingly.

Expenses of reassessment are paid from the county reassessment fund.

The township assessor would no longer need to serve on the county land valuation commission which could reduce costs by a minimal amount for the county. The bill could also reduce expenses associated with correspondences among the county assessor, the trustee assessor, and the DLGF.

Transfer of Dog Tax Duties: Under existing law, township assessors must take a census of the dogs in the township and collect a dog tax. All money derived by the dog tax must be used for the payment of damages sustained by owners of certain stock, fowl, or game killed, maimed, or damaged by dogs. Townships forward to the county at the end of a year any funds in a township dog fund exceeding \$300 over and above orders drawn on the fund.

Funds transferred to counties are to be deposited in the county dog fund. Money in the county dog fund is distributed among the townships or to humane societies. If the funds are insufficient to pay for damaged stock, fowl, and game, the losses are paid from the State Dog Account. Surplus remaining in the county dog fund is paid to the Auditor of State and placed in a separate account of the state General Fund, known as the State Dog Account. All money in excess of \$50,000 remaining in the State Dog Account after annual distributions, are distributed to Purdue University for the School of Veterinary Science and Medicine and to the general fund of each county. As of December 9, 2005, the State Dog Account had allotted \$309,005, had dispersed \$252,681, and had a balance of \$56,324. Of the distribution, \$207,229 was distributed while \$45,452 was used for supplies.

The repeal of IC 15-5-9 removes the responsibility of administering the dog tax and dog fund from township assessors and trustees, including the payment of claims made against the fund for dog-related damages. This provision is expected to cause a minimal reduction in the workload of these township officials. However, the responsibilities will be transferred to the county, which will affect expenses for counties, presumably by a minimal amount.

Administration of Public Funds: The bill eliminates the requirement pertaining to the publication of certain claims for which a warrant is issued for claims involving salaries, per diem for jurors, and salaries of officers of the court. The bill changes the date that the county executive must allow the claim from the date of publication to the date the claim is certified by the county fiscal officer or the date it is placed on the claim docket. This provision will reduce county expenditures by an indeterminable amount. Counties would no longer be required to publish separately each claim nor would they have to publish every claim.

State-Conducted Assessment or Reassessment: The bill provides that counties may contract with the DLGF to conduct or contract for the reassessment or assessment of property in the county. The contract must be approved locally by ordinance. The county fiscal body must notify the county assessor, county treasurer, and the DLGF when the contract is filed with the county recorder. The county assessor's duties would be limited to providing information to the DLGF or the contractor. If the county assessor fails to provide the information, the assessor commits a Class A misdemeanor. The impact of these provisions will depend on the number and

nature of county reassessments or assessments that the DLGF conducts. Expenses would be paid from the county reassessment fund.

Tax Statements: The county treasurer, the county auditor, and the county assessor must cooperate to generate information to be included in a mailing to each taxpayer of information pertaining to property taxes. After December 2007, the statement and information must be in a uniform format prescribed by the DLGF. The impact of this provision will depend in part on the extent to which counties are currently providing the information and the format that counties are using. A county that incurs initial computer programming costs or printing costs must submit an itemized statement to the DLGF for reimbursement from the state. Total claims may not exceed \$50,000.

Summary of the Reorganization of Local Government: The bill would have indeterminate fiscal impact. To the extent that reorganized political subdivisions or political subdivisions through cooperative agreements could work more efficiently or avoid duplication of services, costs could be reduced. However, the savings achieved will vary based on the reorganization or cooperative agreement undertaken. The actual cost of reorganization or cooperative agreements will also vary, but will likely require additional expenditures for elections and reorganization planning.

Background on Reorganization of Political Subdivisions: The bill would allow the reorganization of two or more counties, townships, municipalities, school corporations, municipal corporations, special taxing districts, a township and a municipality, a county and one or more townships, a municipality and a county, a school corporation and a county or municipality, or a municipal corporation and a county or a municipality. The reorganizations would be limited by requirements that the subdivision be adjacent, that the majority of the population reside within the other subdivision, or other qualifications. The consolidation could result in a single, new political subdivision, or one political subdivision may subsume another.

Indebtedness of a reorganizing political subdivision will be paid from the levy of property tax or other tax, if allowed, of the new political subdivision. The tax levy cannot exceed the amount needed to pay the debt and interest. An individual employed as a firefighter, police officer, or sheriff by a reorganizing political subdivision remains a member of the retirement fund under which the individual was a member when the political subdivisions were separate.

The reorganization of political subdivisions may be terminated or restored by the legislative body or voters in the same manner that the reorganization was initiated. Additionally, a subdivision may withdraw from a reorganization, but must reimburse other political subdivisions for its share of the obligations incurred before the withdrawal.

Reorganization Committee - The reorganization committee may be appointed not later than 30 days after the last subdivision adopts a resolution for reorganization or prior to the final subdivision adopts a reorganization resolution. However, the final reorganization plan cannot be adopted before all subdivisions have adopted a reorganization resolution. The members of the committee serve without pay, but may be reimbursed for expenses incurred in the performance of their duties. The committee may use the offices and staff of the reorganizing subdivisions, and the reorganizing subdivisions may employ attorneys, accountants, consultants, and other professionals for the committee.

The reorganization plan proposed by the committee must include the name and description of the reorganized subdivision, its boundaries, the taxing areas, and the membership of the legislative, fiscal, and executive bodies.

It must include the disposition of personnel, agreements, assets, and liabilities of the subdivisions, and other matters defined by the committee or legislative body. The plan is presented to the legislative body of each reorganizing political subdivision for adoption. The legislative body may adopt the plan, modify it, or reject the plan. The reorganization committee must submit a new reorganization plan within 30 days after a rejection.

The powers of the reorganization committee include adopting rules for the administration of the committee, conducting public hearings, reviewing books and records of any reorganizing subdivision, administering oaths, and issuing and enforcing subpoenas and discovery orders.

Background on Cooperative Agreements: The bill also allows for cooperative agreements among two or more entities including all political subdivisions, all state agencies, another state, political subdivisions of states other than Indiana, or agencies of the federal government. A cooperative agreement must include the duration of the agreement, its purpose, the manner of financing, staffing and supplying the undertaking, termination information, administration of the agreement, specifications concerning property, and other conditions or terms that are necessary or appropriate. The cooperative agreement may provide that a political subdivision may appropriate and pledge revenues to the payment of bonds, leases, or other obligations of another party of the agreement. Under a cooperative agreement, money or other property of a political subdivision may be transferred to an entity that is party to the agreement or to an economic development entity established by an entity that is a party to the agreement.

A political subdivision may share the services of an employee under a cooperative agreement. It may transfer the functions of an employee, even an elected official, and provide for an elected office to be abolished.

Background on Joint Taxing District Cooperative Agreements: Another reorganization allowed under the bill is a cooperative agreement to provide services within a territory. This type of agreement requires a description of the activity to be conducted, the service to be provided, or the project to be undertaken; the boundaries of the proposed territory; the identity of the provider political subdivision; the sources of funding for the territory; the agreement or an executive summary of the agreement.

The provider political subdivision must establish a governmental service fund from which all expenses are paid. The fund consists of all receipts from the tax imposed under the section and all money transferred to the fund by the provider political subdivision. After a budget is established, including expenses and receipts of money, the provider political subdivision will establish a property tax levy to fund the estimated budget. If there is a shortfall, the money may be transferred from available resources to the governmental service fund. If a shortfall occurs in the following year, the local option revenue or property tax levy may be increased for the amount of the shortfall and the provider political subdivision may be reimbursed from the governmental service fund. Likewise, if there is an excess of revenue in the following year, the local option revenue or property tax levy is reduced by the amount of the surplus.

A political subdivision that incurred indebtedness before becoming a participating political subdivision will continue to repay that indebtedness by levies within the boundaries of the political subdivision (not the territory) until the indebtedness is repaid.

Expansion of Permissible LR&S Expenditures: The bill expands the purposes for which Local Road and Street (LR&S) funds may be used to include the following:

- (1) oiling, sprinkling, snow removal, weed and tree cutting, and cleaning of highways, including any curbs;
- (2) the city's or town's share of the cost of separation of the grades of crossing of public highways and

- railroads;
- (3) the purchase, erection, operation, and maintenance of traffic signs and signals and safety zones and devices; and
- (4) the painting of structures, objects, and surfaces in highways for the purposes of safety and traffic regulation.

Background Information: Over the last five fiscal years, local units (cities, towns, and counties) have received, on average, \$77.9 M per year from distributions from the Local Road and Street Account.

Local Option Supplemental Taxes: See *Explanation of Local Revenues*.

Explanation of Local Revenues: *Transfer of Property Tax Assessment Duties and Dog Tax Duties:* For each individual dog tag or kennel license issued, the township assessor (or trustee who collects the fee) retains an administrative fee of \$0.50. Administrative fees collected by the assessor are deposited in the county general fund, and administrative fees collected by the trustee are deposited in the township general fund. Removing the dog tax responsibility from townships will decrease revenue to the township funds while increasing revenues to the county funds. Additionally, the DLGF must adjust maximum permissible ad valorem tax levies of counties and townships to reflect the transfer of duties from township assessors to county assessors. The adjusted maximum permissible ad valorem tax levies apply to property taxes first due and payable after December 31, 2006.

Cigarette Tax Fund Distributions: The bill changes the cigarette tax fund distribution to cities and towns not located in a consolidated county. Current law requires that the unit deposit 3/14 of the money in the unit's general fund with 11/14 in the cumulative capital improvement fund. The bill provides that the unit may determine by ordinance or resolution the part of the allocated amount that is to be deposited in the general fund. For 2005, the cigarette tax fund received \$22.7 M. Two-thirds of the revenue, or an estimated \$15 M, went to cities and towns.

Local Option Supplemental Taxes: The following table displays statewide estimates for local option supplemental taxes. (The estimates assume all 92 counties would adopt these taxes.) Each tax may be imposed at a 0.1% rate. The estimates reflect revenues at a 0.1% rate.

Type of Local Option Supplemental Tax	Estimated 2007 Revenue at 0.1% Rate
Income	\$118.4 M
Sales	\$92 M
Food & Beverage	\$8.9 M
Innkeeper's*	\$834,000
*65 counties have adopted an innkeeper's tax under current law. Estimates reflect what a 0.1% rate would raise in those 65 counties only.	

Distribution of Local Option Supplemental Taxes: Counties adopting any combination of taxes under the bill would be required to establish a supplemental tax revenue fund administered by county fiscal officers.

Two accounts would be created within a county supplemental tax revenue fund. One account would receive revenue for property tax replacement use. The other account would contain revenue for miscellaneous use. Eighty percent of the revenue collected (from local supplemental taxes imposed by a county) would be placed in the property tax replacement account. The remaining 20% of revenue collected would be placed in the miscellaneous revenue shares account.

Local Option Supplemental Tax Revenue Use: Property Tax Replacement- Revenue in the property tax replacement account would be distributed as additional property tax replacement credits and would be uniformly applied to all property taxes on all taxpayer property in an adopting county. Distributions would be made each year by the county fiscal officer to each taxing unit equal to the amount of revenue lost to those units as a result of granting the additional property tax replacement credits allowed by the bill.

Miscellaneous Revenue- Miscellaneous revenue would be distributed to each civil taxing unit in the county by the method used to distribute Local Option Income Taxes to units under current law.

Miscellaneous revenue in COIT adopting counties would be distributed in the same manner as COIT revenue. In all other counties, the miscellaneous revenue would be distributed in the same manner as CAGIT certified shares would be distributed. In both cases, only civil taxing units, and not school corporations, would receive a distribution.

Miscellaneous revenue could be used by a civil taxing unit for any lawful purpose, including payment on bonds, leases, obligations, or other means of indebtedness of the unit. Miscellaneous revenue would not be subject to property tax controls.

Both PTR and miscellaneous revenues would be distributed to taxing units at least biannually in June and December of a calendar year.

NOTE: If (1) a governing body has a debt obligation that existed before April 1, 2006, that is payable in whole or in part from tax increment revenues and (2) the governing body certifies that the bondholders' rights would be impaired by payment of the property tax replacement credits, then miscellaneous revenue from supplemental taxes would have to first be applied to those obligations before the revenue is used for any other purpose. If a shortfall still exists, then money in the property tax replacement account would be used for bond payments before distributions to taxing units are made.

Effective Dates: Sales, food and beverage, and innkeeper's taxes would be effective no earlier than the first day of a month that is at least 45 days after the passage date of the ordinance.

Supplemental local income taxes adopted before May 1 in a given year would have an effective date of July 1 in the year of adoption. If the tax were adopted after April 31, the effective date would be January 1 in the year immediately following the year of adoption.

Child Welfare: Under this proposal, the property tax levies for the county family and children's and county children's psychiatric residential treatment funds would be limited under this proposal with the state paying for the cost of services over the limit.

The CY 2007 family and children's fund levy would equal:

(A) The 2006 budget estimate for the fund; minus

- (B) Miscellaneous (non-property tax) revenues; minus
- (C) The estimated portion of the 2005 levy attributable to:

- (1) Foster care;
- (2) Therapeutic foster care;
- (3) Care of wards in institutions;
- (4) Independent Living for Wards;
- (5) 15% of disbursements for preservation services; and
- (6) 15% of disbursements for miscellaneous costs of wards.

The family and children's fund levy in CY 2007 and later years would equal (1) the 2007 levy; minus (2) the cost of services ordered by the juvenile court judge if the services are not designated as "appropriate services" in a dispositional plan.

The children's psychiatric residential treatment fund levy for CY 2007 and later years would equal (1) the 2006 budget estimate for the fund minus (2) miscellaneous revenues.

The statewide total gross levy for both the family and children's fund and the children's psychiatric residential treatment fund was \$284.7 M in CY 2005 and is projected at \$348.2 M in CY 2006, \$410.0 M in CY 2007, and \$430.2 M in CY 2008 under current law. The statewide total net levy was \$250.1M in CY 2005 and is projected at \$297.6 M in CY 2006, \$349.7 M in CY 2007, and \$358.8 M in CY 2008 under current law. **Under this provision, the gross levy would be reduced by about \$41.2 M in CY 2007 and \$61.5 M in CY 2008. The net levy would be reduced by about \$31.5 M in CY 2007 and \$46.9 in CY 2008.**

Probation Services Fund: Under current law, the costs that counties pay for services for juvenile delinquents and CHINS are paid from general fund appropriations out of the juvenile court budget and from the Office of Family and Children budget. Under this bill, the expenditures for juveniles who are delinquents and not CHINS would be paid from a new County Probation Services Fund. The fund would have its own property tax levy.

Costs paid from the fund would include out-of-home placements, juvenile probation officer supervision, and any other services. Expenditures not payable from the fund include secure detention in either a juvenile detention facility or a facility under the jurisdiction of the Department of Correction or other capital or operating costs incurred for a secure juvenile detention facility.

The levy would be based on the expenditures for probation services and out-of-home placements offset by any revenue received for probation user fees, reimbursements from parents for out-of-home placements, and federal reimbursements and grants. [More information will be provided in the near future.]

State Agencies Affected: Attorney General; State Board of Accounts; Secretary of State; Department of State Revenue; State Budget Agency; Department of Local Government Finance; Office of State Auditor; Office of Management and Budget; Legislative Services Agency.

Local Agencies Affected: All.

Information Sources: DLGF, 233-3068; *Indiana Handbook on Taxes, Revenues, and Appropriations for FY 2005*; Bob Walls, Department of State Revenue; U.S. Bureau of the Census; local option income tax estimates; 2004 *Indiana Probation Report*.

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